

PRELIMINARY  
DRAFT

**INTERLOCAL NO. 615**

**Hiawatha, Kansas**

**Financial Statements**

**For the Year Ended June 30, 2014**

INTERLOCAL NO. 615  
Hiawatha, Kansas  
Financial Statements  
For the Year Ended June 30, 2014

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Education  
Interlocal No. 615  
Hiawatha, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Interlocal No. 615, Hiawatha, Kansas, (the Interlocal), as of and for the year ended June 30, 2014 and the related notes to the financial statement.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 1 of the financial statement, the financial statement is prepared by the Interlocal to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal

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Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

*Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Interlocal No. 615, Hiawatha, Kansas, as of June 30, 2014, or the respective changes in financial position and changes in cash flows, where applicable, for the year then ended.

*Opinion on Regulatory Basis of Accounting*

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Interlocal, as of June 30, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with the Kansas regulatory basis of accounting. Accordingly, such information should be read in conjunction with the Interlocal's financial statements for the year ended June 30, 2013, from which such partial information was derived.

*Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory cash receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statements, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole, on the basis of accounting described in Note 1.

*Mize Houser & Company PA*

Certified Public Accountants  
Lawrence, Kansas

September 2, 2014

INTERLOCAL NO. 615  
Summary Statement of Receipts, Expenditures and Unencumbered Cash  
Regulatory Basis  
For the Year Ended June 30, 2014

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<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Cancelled Encumbrances</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Outstanding Encumbrances and Accounts Payable</u>	<u>Current Year Ending Cash Balance</u>
Governmental Fund Types:							
General	\$ 804,470	\$ -	\$ 1,642,813	\$ 1,781,990	\$ 665,293	\$ -	\$ 665,293
Special Purpose Funds:							
Inservice Education	-	-	6,760	6,760	-	-	-
Title VI-B	419,254	-	877,042	930,836	365,460	-	365,460
Hiawatha Kiwanis Foundation Grant	-	-	-	-	-	-	-
Early Childhood Special Education	11,105	-	50,570	48,331	13,344	-	13,344
CSIP Grant	<u>34,827</u>	<u>-</u>	<u>177,008</u>	<u>201,442</u>	<u>10,393</u>	<u>-</u>	<u>10,393</u>
Total	<u>\$ 1,269,656</u>	<u>\$ -</u>	<u>\$ 2,754,193</u>	<u>\$ 2,969,359</u>	<u>\$ 1,054,490</u>	<u>\$ -</u>	<u>\$ 1,054,490</u>

COMPOSITION OF CASH:

Citizens State Bank	
Demand Accounts	\$ 881,895
Petty Cash Account	500
Less - Outstanding Checks	<u>[327,905]</u>
Sub-total Citizens State Bank	554,490
Horton National Bank - Certificate of Deposit	250,000
Morrill & Janes Bank - Certificate of Deposit	<u>250,000</u>
Total Cash Balance	<u>\$ 1,054,490</u>

INTERLOCAL NO. 615  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

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NOTE 1 - Summary of Significant Accounting Policies

Reporting Entity

Brown County Kansas Special Education Interlocal No. 615 (the Interlocal) is an interlocal agency organized pursuant to K.S.A. 72-8230 and is governed by an appointed six-member board. The board consists of members of participating Unified School Districts' Boards of Education. Those Districts are USD No. 415, Hiawatha and USD No. 430, South Brown County. These financial statements present only the transactions and balances of the General and Special Revenue Funds of Interlocal No. 615, in accordance with the basis of accounting noted below.

Basis of Accounting

*Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.* The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, and marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Interlocal has approved a resolution that is in compliance with K.S.A. 75-1120a(c) waiving the requirement for application of generally accepted accounting principles and allowing the Interlocal to use the regulatory basis for accounting.

Regulatory Basis Fund Types

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

INTERLOCAL NO. 615  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

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NOTE 1 - Summary of Significant Accounting Policies (Continued)

Regulatory Basis Fund Types (Continued)

The following types of funds comprise the financial activities of the Interlocal for the year ended June 30, 2014:

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Projects and tax levies for long-term debt) that are intended for specified purposes.

Budgetary Information

All budgets are prepared utilizing the cash basis of accounting further modified by the recording of encumbrances that is, commitments such as purchase orders and contracts, in addition to disbursements and accounts payable, are recorded as expenditures.

Original appropriations are modified by supplemental appropriations and transfers among budget categories. The Board of Education approves all significant changes.

Schedule 1 presents budgetary comparisons of the actual data on the budgetary basis, which includes encumbrances, with the adopted budget.

All revenues and expenditures are estimated on a twelve-month basis. The Interlocal does not levy taxes directly to fund operations, but instead charges an assessment to participating school districts based on services performed.

Budgets are prepared for internal use only, therefore, expenditures exceeding budgeted amounts do not constitute a violation in accordance with Kansas Statutes.

NOTE 2 – Deposits and Investments

*Deposits.* K.S.A. 9-1401 establishes the depositories which may be used by the Interlocal. The statute requires banks eligible to hold the Interlocal's funds have a main or branch bank in the county in which the Interlocal is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Interlocal has no other policies that would further limit interest rate risk.

*Investments.* K.S.A. 12-1675 limits the Interlocal's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Interlocal has no investment policy that would further limit its investment choices. As of June 30, 2014, the Interlocal held no such investments.

*Concentration of credit risk.* State statutes place no limit on the amount the Interlocal may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk – deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Interlocal's deposits may not be returned to it. State statutes require the Interlocal's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Interlocal has no designated "peak periods." All deposits were legally secured at June 30, 2014.

INTERLOCAL NO. 615  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

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NOTE 2 – Deposits and Investments (Continued)

At June 30, 2014, the Interlocal's carrying amount of deposits was \$1,054,490 and the bank balance was \$1,382,395. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$750,000 was covered by federal depository insurance and the balance of \$632,395 was collateralized with letters of credit or securities held by the pledging financial institutions' agents in the Interlocal's name.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Interlocal will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 - Compensated Absences

Brown County Special Education Interlocal No. 615 pays out unused sick time to employees who have met the Kansas requirements for retirement. At June 30, 2014, the total amount owed to eligible employees is \$2,760.

NOTE 4 - Defined Benefit Pension Plan

*Plan Description.* The Interlocal participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Avenue, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

*Funding Policy.* K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the statutory required employers share. Estimated Kansas contributions to KPERS for the Interlocal employees for the years ending June 30, 2014, 2013, and 2012 were \$287,055, \$267,033, and \$234,785 respectively, equal to the required contributions for each year.

NOTE 5 - Interfund Transactions

Transfers between funds were as follows for the year ended June 30, 2014:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Regulatory Authority</u>
General	Inservice Education	\$ 6,760	K.S.A. 72-6428
Total		<u>\$ 6,760</u>	

Note 6 - Risk Management

Interlocal No. 615 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it carries insurance. Settled claims have not exceeded commercial coverage in any of the three preceding years.



INTERLOCAL NO. 615  
Notes to the Financial Statements  
For the Year Ended June 30, 2014

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NOTE 7 – Commitments and Contingencies

The Interlocal receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements of the Interlocal at June 30, 2014.

NOTE 8 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Interlocal makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the Interlocal under this program.

INTERLOCAL NO. 615  
Summary of Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended June 30, 2014

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<u>Funds</u>	<u>Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over [Under]</u>
Governmental Fund Types:			
General	\$ 2,434,353	\$ 1,781,990	\$ 652,363
Special Purpose Funds:			
Inservice Education	9,500	6,760	2,740
Title VI-B	1,309,846	930,836	379,010
Hiawatha Kiwanis Foundation Grant	-	-	-
Early Childhood Special Education	61,527	48,331	13,196
CSIP Grant	222,786	201,442	21,344

INTERLOCAL NO. 615  
General Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended June 30, 2014  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

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	Prior Year <u>Actual</u>	<u>Current Year</u>		Variance Over [Under]
		<u>Actual</u>	<u>Budget</u>	
Receipts				
State aid	\$ 1,308,767	\$ 1,148,612	\$ 1,166,710	\$ [18,098]
District payments	482,719	481,578	481,578	-
Investment income	3,754	3,097	5,000	[1,903]
Other income	<u>3,121</u>	<u>9,526</u>	<u>5,500</u>	<u>4,026</u>
Total Receipts	<u>1,798,361</u>	<u>1,642,813</u>	<u>\$ 1,658,788</u>	<u>\$ [15,975]</u>
Expenditures and Transfers				
Instruction	1,627,570	1,347,261	\$ 1,589,331	\$ 242,070
Student support services	158,071	159,836	181,057	21,221
General administration	225,135	190,140	242,367	52,227
Operations and maintenance	-	-	288,612	288,612
Transportation	63,795	77,993	132,986	54,993
Transfers out	<u>4,289</u>	<u>6,760</u>	<u>-</u>	<u>[6,760]</u>
Total Expenditures and Transfers	<u>2,078,860</u>	<u>1,781,990</u>	<u>\$ 2,434,353</u>	<u>\$ 652,363</u>
Receipts Over [Under] Expenditures	[280,499]	[139,177]		
Unencumbered Cash, Beginning	<u>1,084,969</u>	<u>804,470</u>		
Unencumbered Cash, Ending	<u>\$ 804,470</u>	<u>\$ 665,293</u>		

See independent auditor's report on the financial statements.

INTERLOCAL NO. 615  
Inservice Education Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended June 30, 2014  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

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	Prior Year <u>Actual</u>	<u>Current Year</u>		Variance Over [Under]
		<u>Actual</u>	<u>Budget</u>	
Receipts				
Transfers in	\$ 4,289	\$ 6,760	\$ 9,500	\$ [2,740]
Total Receipts	<u>4,289</u>	<u>6,760</u>	<u>\$ 9,500</u>	<u>\$ [2,740]</u>
Expenditures				
Instructional support services	<u>4,289</u>	<u>6,760</u>	<u>\$ 9,500</u>	<u>\$ 2,740</u>
Total Expenditures	<u>4,289</u>	<u>6,760</u>	<u>\$ 9,500</u>	<u>\$ 2,740</u>
Receipts Over [Under] Expenditures	-	-		
Unencumbered Cash, Beginning	<u>-</u>	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ -</u>		

See independent auditor's report on the financial statements.

INTERLOCAL NO. 615  
Title VI - B Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended June 30, 2014  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

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	Prior Year <u>Actual</u>	<u>Current Year</u>		Variance Over [Under]
		<u>Actual</u>	<u>Budget</u>	
Receipts				
Federal aid	\$ 363,326	\$ 357,792	\$ 357,792	\$ -
State aid	<u>475,974</u>	<u>519,250</u>	<u>532,800</u>	<u>[13,550]</u>
Total Receipts	<u>839,300</u>	<u>877,042</u>	<u>\$ 890,592</u>	<u>\$ [13,550]</u>
Expenditures				
Instruction	<u>778,899</u>	<u>930,836</u>	<u>\$ 1,309,846</u>	<u>\$ 379,010</u>
Total Expenditures	<u>778,899</u>	<u>930,836</u>	<u>\$ 1,309,846</u>	<u>\$ 379,010</u>
Receipts Over [Under] Expenditures	60,401	[53,794]		
Unencumbered Cash, Beginning	<u>358,853</u>	<u>419,254</u>		
Unencumbered Cash, Ending	<u>\$ 419,254</u>	<u>\$ 365,460</u>		

See independent auditor's report on the financial statements.

INTERLOCAL NO. 615  
Hiawatha Kiwanis Foundation Grant Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended June 30, 2014  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

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	Prior Year <u>Actual</u>	<u>Current Year</u>		Variance Over [Under]
		<u>Actual</u>	<u>Budget</u>	
Receipts				
Local source	\$ -	\$ -	\$ -	\$ -
Total Receipts	-	-	-	-
Expenditures				
Instruction	517	-	\$ -	\$ -
Total Expenditures	517	-	\$ -	\$ -
Receipts Over [Under] Expenditures	[517]	-		
Unencumbered Cash, Beginning	517	-		
Unencumbered Cash, Ending	\$ -	\$ -		

INTERLOCAL NO. 615  
Early Childhood Special Education Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended June 30, 2014  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

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	Prior Year <u>Actual</u>	<u>Current Year</u>		Variance Over [Under]
		<u>Actual</u>	<u>Budget</u>	
Receipts				
Federal aid	\$ -	\$ 22,671	\$ 22,671	\$ -
State aid	<u>28,275</u>	<u>27,899</u>	<u>27,750</u>	<u>149</u>
Total Receipts	<u>28,275</u>	<u>50,570</u>	<u>\$ 50,421</u>	<u>\$ 149</u>
Expenditures				
Instructional support services	<u>48,959</u>	<u>48,331</u>	<u>\$ 61,527</u>	<u>\$ 13,196</u>
Total Expenditures	<u>48,959</u>	<u>48,331</u>	<u>\$ 61,527</u>	<u>\$ 13,196</u>
Receipts Over [Under] Expenditures	[20,684]	2,239		
Unencumbered Cash, Beginning	<u>31,789</u>	<u>11,105</u>		
Unencumbered Cash, Ending	<u>\$ 11,105</u>	<u>\$ 13,344</u>		

See independent auditor's report on the financial statements.

INTERLOCAL NO. 615  
CSIP Grant Fund  
Schedule of Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the Year Ended June 30, 2014  
(With Comparative Actual Totals for the Prior Year Ended June 30, 2013)

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	Prior Year <u>Actual</u>	<u>Current Year</u>		Variance Over [Under]
		<u>Actual</u>	<u>Budget</u>	
Receipts				
State aid	\$ 28,275	\$ 156,305	\$ 138,850	17,455
Reimbursed expenses	<u>20,703</u>	<u>20,703</u>	<u>20,703</u>	-
Total Receipts	<u>48,978</u>	<u>177,008</u>	<u>\$ 159,553</u>	<u>\$ 17,455</u>
Expenditures				
Instruction	28,838	199,442	\$ 220,786	\$ 21,344
Instructional support	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	-
Total Expenditures	<u>30,838</u>	<u>201,442</u>	<u>\$ 222,786</u>	<u>\$ 21,344</u>
Receipts Over [Under] Expenditures	18,140	[24,434]		
Unencumbered Cash, Beginning	<u>16,687</u>	<u>34,827</u>		
Unencumbered Cash, Ending	<u>\$ 34,827</u>	<u>\$ 10,393</u>		

See independent auditor's report on the financial statements.





MIZE HOUSER  
COMPANY<sup>PA.</sup>

PRELIMINARY  
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AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Education  
Interlocal No. 615  
Hiawatha, Kansas

We have audited the financial statements of the Interlocal No. 615, Hiawatha, Kansas (the Interlocal) for the year ended June 30, 2014 and have issued our report thereon dated September 2, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 7, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis and budget laws of the State of Kansas. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will communicate our significant findings at the conclusion of the audit. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 21, 2014.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Interlocal are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 2, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Interlocal's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

## Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting policies used by the Interlocal as described in Note 1 to the financial statements, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Interlocal No. 615 and is not intended to be, and should not be, used by anyone other than these specified parties.

*Mike Houser: Company PA*

Certified Public Accountants  
Lawrence, Kansas

September 2, 2014

PRELIMINARY  
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